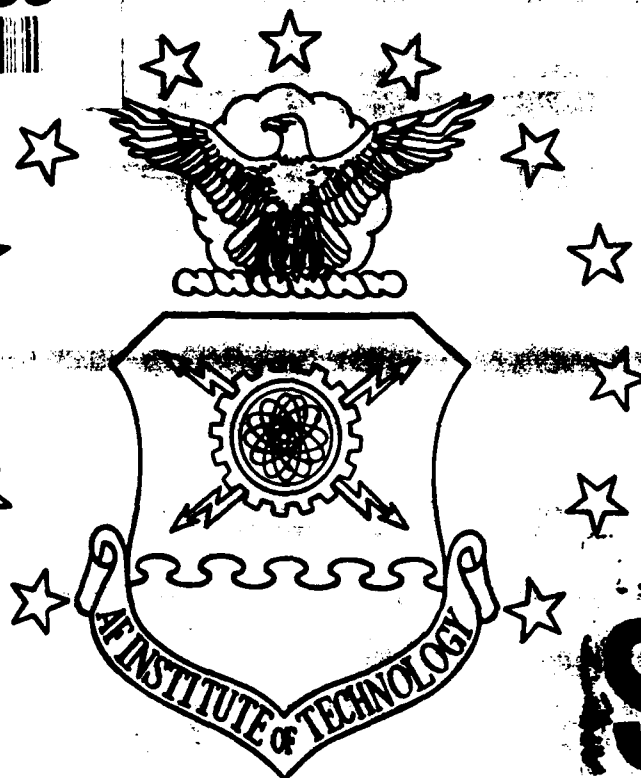
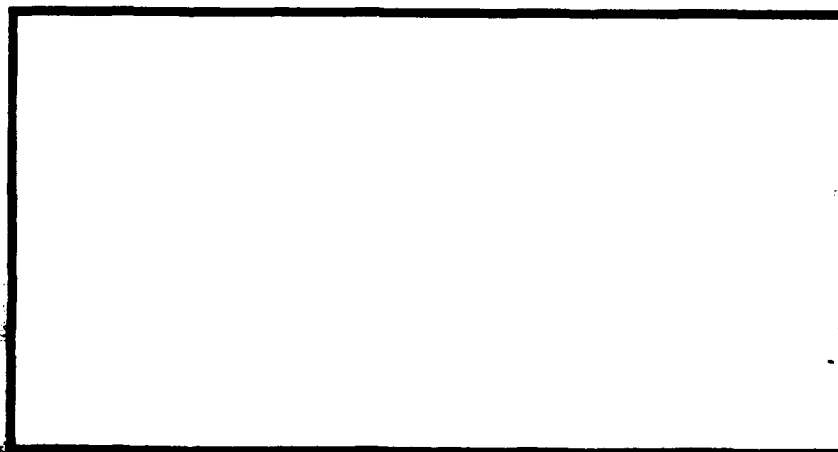


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**AFIT/GCM/LSP/91S-13**

**DEFINING CONTRACT TERMS**

**THESIS**

**Stephanie Shelley**  
**GS-12**

**AFIT/GCM/LSP/91S-13**



**AFIT/GCM/LSP/91S-13**

**DEFINING CONTRACT TERMS**

**THESIS**

**Presented to the Faculty of the School of Systems and  
Logistics of the Air Force Institute of Technology**

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**In Partial Fulfillment of the**

**Requirements for the Degree of**

**Master of Science in Contracting Management**

**Stephanie Shelley**

**GS-12**

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Stephanie Shelley

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Abstract

↙ This thesis researched the meanings of 25 contract terms. First the literature was reviewed for existing definitions, then a proposed definition was written for each term, based on the literature search. These definitions were then mailed out to selected contracting professionals for their review. The definitions were then revised based on the comments received. ↘



## DEFINING CONTRACT TERMS

### I. Problem Statement

#### Introduction

This thesis is part of an on-going research program to define contracting terms. This work is supported by the National Contract Management Association (NCMA). Students at both the Naval Postgraduate School (NPS) and the Air Force Institute of Technology (AFIT) are researching definitions for contracting terms.

Daniel F. Ryan's thesis began the process of compiling authoritative, standard definitions of contracting terms (Ryan, 1988). Certain words are used to put agreements into writing. If these agreements are to be effective, people must understand what the words mean (Ryan, 1988:1-3). As Connie L. Thornton points out in her thesis, good communication is essential to writing good contracts (1987:87).

In defining his terms, Ryan collected several definitions for each of his chosen words and then combined all these definitions into "single synthesized definitions" (1988:9). He then mailed his proposed definitions to a group of contracting professionals for their review and comments. After receiving their comments, he made any necessary revisions in the definitions. In this way, he

tried to define the words as they are most frequently used (1988:6-15).

William J. Hauf established a master list of contracting terms that needed to be defined (Hauf, 1990). The terms that are defined in this thesis come from Appendix F, "Complete Master Listing of Terms" in Hauf's thesis (1990).

#### Specific Problem

The goal is to provide a source that will explain contracting terms as they are currently used--not to create formal definitions that will never change. As with any dictionary, the final product will have to be revised as the meanings of the words change.

#### Investigative Objectives

The objective is to define 25 contracting terms as they are actually used. First, the meanings of each given word were researched. Then, these meanings were combined into one definition. Of course, the definition might include several different meanings of the word, indicating that it can be used in more than one way.

The last step in producing a definition of these terms was a survey to ascertain the agreement on the proposed definitions. The number of terms was limited to 25 for the following reason. There are a limited number of people who can respond to the survey. (The process for choosing survey

participants is described in the Methodology chapter.) If the participants were given too many definitions to consider, they would be overwhelmed by the amount of work necessary to review and evaluate the definitions. It is believed that the survey participants will provide better responses if the number of terms they are asked to review is restricted to 25 (Pursch, 1991).

The comments and feedback from these participants were incorporated in an effort to prepare definitions of these terms that would be useful to people working in the contracting field.

### Overview of Thesis

This first chapter has provided a discussion of the research problem and of the reasons for doing this work.

Chapter two, "Literature Review," describes the first part of the actual research. Current literature was searched to find meanings for the 25 terms included in this thesis. This information was then combined to form a proposed definition for each term.

Chapter three, "Methodology," describes the formation of the proposed definitions. Next, it explains the survey that was done to determine if contracting professionals agreed with the proposed definitions. This chapter tells how the survey participants were chosen and how the survey was conducted.

Chapter four, "Data Analysis," describes the responses

to the survey and provides the final definitions as revised by comments from the survey participants.

Chapter five, "Conclusions and Recommendations," summarizes this thesis, draws conclusions on the research, and provides suggestions for future research.

## II. Literature Review

### Introduction

This thesis is concerned with the following terms:

Advance Acquisition	Established Catalog Price
Auctioning	Field Pricing Support
Bid	Interim Pricing
Bid and Proposal Costs	Not-To-Exceed (NTE) Price
Bid Opening	Offeror
Bid Withdrawal	Overhead
Burden	Pre-Bid Conference
Ceiling Price	Pre-Solicitation Conference
Cost Analysis	Price Competition
Cost Element	Purchase Request
Cost Overrun	Target Price
Cost Reimbursement	Work Breakdown Structure
Cost Risk	

All but four of these terms are cost type terms. The other four (advance acquisition, pre-bid conference, pre-solicitation conference and work breakdown structure) are acquisition terms.

This thesis concentrated on cost type terms because cost and pricing issues are important parts of the negotiating process. It was believed these terms would be interesting to research.

As discussed in chapter I, this thesis is a continuation of work begun earlier. Several master's degree students, some at the Naval Postgraduate School (NPS) and some at the Air Force Institute of Technology (AFIT), have written theses that define contracting terms. The overall goal is to compile definitions for the master list of terms

established in Hauf's thesis (1990) and then publish them for use by contracting professionals.

Several contracting professionals think that contracting terms need to be defined. One of them, Connie L. Thornton, states in her thesis:

Further examination is required to establish uniform definitions of procurement terminology that can be standardized throughout the contracting discipline. (1987:99)

Another one, Daniel F. Ryan, states in his thesis: "No source of authoritative contracting definitions exists" (1988:7-8).

This chapter discusses the definitions that were found in the published literature for the above terms and presents the synthesized definition for each one that was developed based on this literature review. The results of this research are discussed below.

#### Advance Acquisition

Advance acquisition is defined in FAR 17.101 as:

... an exception to the full funding policy which allows acquisition of long leadtime items (advanced long lead acquisition) or economic order quantities (EOQ) of items (advance EOQ acquisition) in a fiscal year in advance of that in which the related end item is to be acquired. Advance acquisitions may include materials, parts, and components as well as costs associated with the further processing of those materials, parts, and components.

This definition is repeated by Keyes (1987:Letter A,21). The Dictionary of Purchasing uses slightly different words but expresses essentially the same idea:

allows for acquisition of long leadtime items or large quantities of items or services in a fiscal year in advance of the products, services, or construction which are to be acquired. (1986:1)

There appears to be close agreement on the meaning of this term. The above definitions are very similar and basically reflect the ideas contained in the FAR. Therefore, based upon the above information, a synthesized definition for advance acquisition is:

The acquisition of long leadtime items or large quantities of items in a fiscal year in advance of that in which the related end item is to be acquired. May include the costs associated with processing those items purchased in advance.

#### Auctioning

Both Keyes (1987:Letter A,74) and the Desktop Guide (1990:13) base their definition of auction technique(s) on the FAR definition:

- (i) Indicating to an offeror a cost or price that it must meet to obtain further consideration;
- (ii) Advising an offeror of its price standing relative to another offeror (however, it is permissible to inform an offeror that its cost or price is considered by the Government to be too high or unrealistic); and
- (iii) Otherwise furnishing information about other offerors' prices. (FAR 15.610(e)(2))

It appears that close agreement on the meaning of this term already exists. The definition appearing in the

Desktop Guide (1990:13) is chosen for the synthesized definition since it contains the essential ideas.

Based on the above information, the proposed definition for auctioning is:

Federal government personnel shall not engage in auction techniques such as (a) Indicating to an offeror a cost or price that it must meet to obtain further consideration; (b) Advising an offeror of its price standing relative to another offeror (however, it is permissible to inform an offeror that its cost or price is considered by the government to be too high or unrealistic); and (c) Otherwise furnishing information about other offerors' prices. (Desktop Guide, 1990:13)

#### Bid

In the Dictionary of Cost, bid is defined as follows:

Normally implies a response to a customer-initiated request for proposal or quotation: may be either competitive or of single-source nature. In past years, a bid was usually simpler in documentation requirements than a proposal. However, in current usage the term bid is often used synonymously with a proposal. (1986:21).

Another definition is: "an offer submitted in response to an IFB issued by a governmental agency ..." (Dictionary of Purchasing, 1986:3).

Black's Law Dictionary defined it in broader terms as "An offer to perform a contract for work and labor or supplying materials or goods at a specified price" (1990:162). This definition is very similar to the one given in Keyes Encyclopedic Dictionary of Contract and Procurement Law (1987:Letter B,9).



All of the above definitions agree that it is an offer to perform work or provide items at a given price.

Based on the above information, the synthesized definition for the term bid is:

An offer to perform a contract by providing labor or material for a specific price. In federal government contracting, this offer is provided in response to a request for proposal or invitation for bid.

### Bid and Proposal Costs

The FAR defines bid and proposal costs as:

... the costs incurred in preparing, submitting, and supporting bids and proposals (whether or not solicited) on potential Government or non-Government contracts. The term does not include the costs of effort sponsored by a grant or cooperative agreement or required in contract performance. (FAR 31.205-18(a))

Keyes uses the FAR definition in his dictionary (1987:Letter B,10), and the DOD's Glossary uses the first part of it (1985:Appendix B, 7). The Dictionary of Cost provides the following definition:

BIDDING AND PROPOSAL EXPENSE: That activity or effort directed toward the preparation and presentation of solicited or unsolicited proposals with the intent of obtaining a customer-funded contract for a new or improved product or service, or to obtain contractual support for research and development effort. (1986:21)

These definitions agree that bid and proposal costs are costs spent in an effort to get a contract. Thus, based

upon the above information, a synthesized definition is:

Costs incurred in preparing, submitting and supporting bids and proposals in an attempt to get a contract.

#### Bid Opening

According to Arnavas and Ruberry in Government Contract Guidebook: "Bid opening is a strictly regulated and formal ritual and a key step in protecting the integrity of the bidding system" (1987:Ch3, 20).

While bid opening may be important, this research found only one source that supplied a meaning for this term. The Dictionary of Purchasing defines it as: "the public opening of bids which are recorded and made available for public inspection" (1986:3). This explanation indicates that the purpose of bid opening is to enable all interested parties to learn the contents of the bids.

The proposed definition for bid opening is the one provided in the Dictionary of Purchasing since it contains the essential information:

The public opening of bids which are recorded and made available for public inspection. (Dictionary of Purchasing, 1986:3)

#### Bid Withdrawal

This literature search did not find any specific definition of the term bid withdrawal. Therefore, a proposed definition has been put forth below. The emphasis

in this term is on the word withdrawal. Webster's defines withdrawal as:

... 2: RETRACTION, REVOCATION 3: the act of drawing someone or something back from or out of a place or position 4a: the act of taking back or away something that has been granted or possessed (1970:1026)

Based on the above information, the following definition is proposed for the term bid withdrawal:

The act of removing a bid from the buyer's consideration.

### Burden

The term burden is used synonymously with the terms overhead and indirect costs. Therefore, it is discussed and defined under the term overhead.

### Ceiling Price

The Dictionary of Cost defines the term ceiling price as "The maximum exposure of a customer to any cost sharing relationship. Normally calculated [as] a percentage of target cost" (1986:26).

According to the General Accounting Office (GAO):

The ceiling price is the maximum amount the government will pay under the contract. Once this price is reached, the contractor must bear all additional costs of performance. (1987:1)

Both of these explanations of the term ceiling price indicate that it is a limit on the amount that a customer will pay under a cost-sharing type contract. Therefore,

based on the above information, the synthesized definition for ceiling price is:

The maximum amount a customer will pay under a cost-sharing type contract.

### Cost Analysis

Cost analysis is defined in Government Contract Costs as:

The review and evaluation of a contractor's cost or pricing data and the judgmental factors applied in projecting from the data to the estimated costs in order to form an opinion on the degree to which the contractor's proposed costs represent what contract performance should cost, assuming reasonable economy and efficiency. (Rishe, 1984:GL-6).

This definition is based on the FAR (15.801) and is repeated, with only slight variations, in Keyes (1987:Letter C,108), the ASPM (1986:B-3) and the Dictionary of Cost (1986:38).

Keyes expands on this definition by adding that cost analysis is frequently used when a price has not been set through competition. All the information the seller has used in establishing a price is carefully and thoroughly reviewed. (1987:Letter C,108).

The ASPM includes the following information:

It includes appropriate verification of cost data, evaluation of specific elements of costs, and projection of these data to determine the effect on price factors like cost necessity, allowances for contingencies, and the basis used for allocation of overhead costs. (1986:B-3 to B-4).

The Glossary defines cost analysis as:

A process employed to develop or assess the reasonableness and validity of resource requirement estimates for military systems and programs. This process includes a statement or report of the assessment together with related conclusions. (1985:Appendix B, 15)

The Dictionary of Cost includes

The accumulation and analysis of actual costs, statistical data, and other information on current and completed contracts or groups of contracts (programs). Cost analysis also includes the extrapolation of these cost data to completion, comparisons and analyses of these data, and cost extrapolations on a current contract with the cost data in the contract value for reports to customers, program and functional managers, and price estimators. (1986:38)

in the definition of cost analysis.

Thus, the idea of cost analysis appears to involve the review and evaluation of cost data in an effort to determine the reasonableness of a price.

Based on the above information, a synthesized definition is:

The review and evaluation of a contractor's cost or pricing data in order to determine the fairness and reasonableness of the contractor's proposed price. All of the information used by the seller in setting his price is examined in an effort to ensure that the seller is not overcharging.

After contract award, the collection and study of cost information.

### Cost Element

The Dictionary of Cost defines the term cost element as "... an identifiable function or a common group of functions

which have been established as a separate entity..." (1986:39). The Compendium says "... a cost element is a subdivision of cost categories and budget appropriation codes" (1981:182).

According to these explanations, then, it would seem that a cost element consists of the cost associated with a given item. Thus, it would appear to be a part of a larger, overall cost category. Based on the above information, the synthesized definition for cost element is:

The cost associated with a given function, process or item. It is a subdivision of an overall cost category.

#### Cost Overrun

Cost overrun is defined in the ASPM as:

Cost overrun (or underrun): A net change in contractual amount over (under) that contemplated by a contract target price (FPI contract), estimated cost (any cost-reimbursement type contract), or redeterminable price (FPR contract), due to the contractor's actual costs being over (under) target or anticipated contract costs, but not attributable to any other cause of cost growth (e.g., quantity changes, engineering changes, economic changes, or changes in estimates of program project costs). (DOD, 1986:B-4)

The Glossary defines it as "The amount by which a contractor exceeds (a) the estimated cost and/or (b) the final limitation (ceiling) of his contract" (1985:Appendix B, 16).

Thus, according to this literature review, cost overrun involves an increase in the price of a contract. Both of

these definitions agree on that idea. However, the ASPM also goes on to explain that some cost increases would not be considered cost overruns (DOD, 1986:B-4). Thus, based on the above information, the synthesized definition for cost overrun is:

An increase in contractual amount over the estimated cost of a contract. It does not include cost increases due to authorized changes such as an increase in quantity or an engineering change.

#### Cost Reimbursement

According to the Dictionary of Cost, cost reimbursement is defined as:

Refers to a family of pricing arrangements that provide for payment of allowable, allocable and reasonable costs incurred in the performance of a contract, to the extent that such costs are prescribed or permitted by the contract. (1986:43)

This definition is very similar to the ones in Public Purchasing and Materials Management (Page, 1980:470), the Desktop Guide (1990:23) and the ASPM (Department of Defense, 1986:B-4).

Thus, according to this literature review, it appears that the term cost reimbursement is being used consistently with the same meaning. In view of the fact that such close agreement already exists concerning the meaning of this term, the Dictionary of Cost definition is used for the synthesized definition:

Refers to a family of pricing arrangements that provide for payment of allowable, allocable and

reasonable costs incurred in the performance of a contract, to the extent that such costs are prescribed or permitted by the contract.  
(Dictionary of Cost, 1986:43)

### Cost Risk

Cost risk is defined in the ASPM as:

An assumption of possible monetary loss or gain in light of the job or work to be done. One of the elements to be considered in the negotiation of a fair and reasonable price, as well as in determining the type of contract under which performance will occur. (DOD, 1986:B-4)

This definition, with only a little variation, is repeated in the Dictionary of Cost (1986:43). Thus, it appears that the meaning of this term is already well-established. The basic idea is the uncertainty of expenses associated with performing a task or service. Since these published definitions agree so closely, the ASPM version is used for the synthesized definition:

An assumption of possible monetary loss or gain in light of the job or work to be done. One of the elements to be considered in the negotiation of a fair and reasonable price, as well as in determining the type of contract under which performance will occur.  
(DOD, 1986:B-4)

### Established Catalog Price

The ASPM defines the term established catalog price as:

A price included in a catalog, price list, schedule, or other form that (1) is regularly maintained by a manufacturer or vendor, (2) is published or made available for inspection by customers, and (3) states prices at which sales are currently or were last made to a significant number



of buyers constituting the general public.  
(DOD, 1986:B-5)

This is essentially a restatement of the definition appearing in FAR 15.804-3(c)(1). Similar restatements are found in the Dictionary of Cost (1986:58) and the Dictionary of Purchasing (1986:12). Thus, this literature review indicates that this term is being consistently used in accordance with the meaning established in the FAR. Because these published definitions agree so closely, the ASPM version is used for the synthesized definition:

A price included in a catalog, price list, schedule, or other form that (1) is regularly maintained by a manufacturer or vendor, (2) is published or made available for inspection by customers, and (3) states prices at which sales are currently or were last made to a significant number of buyers constituting the general public.  
(DOD, 1986:B-5)

#### Field Pricing Support

Field pricing support is defined in the FAR as "... a review and evaluation of the contractor's or subcontractor's proposal by any or all field pricing support personnel..."  
(FAR 15.801).

This definition is repeated in Keyes (1987:Letter F,11). The Dictionary of Cost defines it as follows:

Involves the analysis of contractor pricing proposals by any or all field technical and other specialists, including plant representatives, administrative contracting officers, contract auditors, price analysts, quality assurance personnel, engineers, and legal and small business specialists. (1986:64)

This definition is also found in the ASPM (DOD, 1986:B-5).

The FAR also states: "Field pricing reports are intended to give the contracting officer a detailed analysis of the proposal, for use in contract negotiations" (FAR 15.805-5(a)(2)). The FAR also provides examples of field pricing support personnel (FAR 15.805-5(a)(2)).

The basic idea seems to be the examination of a pricing proposal by people out in the field (or work force) such as price analysts or engineers. This is done in order to provide information about the proposal that can be used during negotiations.

Therefore, a synthesized definition for field pricing support is:

The review and evaluation of a pricing proposal by any or all field pricing support personnel (such as price analysts or engineers) in order to provide a detailed analysis of the proposal that can be used in contract negotiations.

#### Interim Pricing

A specific definition of the term interim pricing was not found in this literature review. Therefore, one has been created and is set forth below as a proposed definition.

Under the heading of "Interim price adjustments" (DOD, 1986:Ch 10, 12), the ASPM states that:

Some fixed-price contracts can be described as flexible pricing arrangements that provide for establishing firm prices for products at some point or points during contract performance. These

arrangements are used when it is not possible to establish acceptable prices for the total contract effort until some time after the contract has been awarded and performance is under way. One calls for prospective adjustment of price at a stated time or times during performance. The other arrangement calls for conversion of an initial, tentative price to either a firm fixed-price or a fixed-price incentive arrangement at a time relatively early in performance. (DOD, 1986:Ch 10, 12)

The ASPM also states:

Both types of flexible arrangements are alike in that the product of the interim pricing action is a firm arrangement. For one, it will be a firm fixed-price arrangement. For the other, it may be either a firm fixed-price or a fixed-price incentive arrangement. They are different in that in the first arrangement, the price relates to future deliveries only; in the second arrangement, the price is for all deliveries, past as well as future. (DOD, 1986:Ch 10, 12)

According to this information, interim prices are established on a temporary basis and converted to firm prices as more data becomes available. Based on the above information, the following definition is provided for interim pricing:

The establishment of initial contract prices that are subject to change as more information becomes available. In some cases, the price will change for future deliveries only; in other cases, the price will change for all the deliveries, past and future.

#### Not-to-Exceed (NTE) Price

The Dictionary of Cost contains the following definition:

NOT-TO-EXCEED (NTE) NOT LESS THAN (NTL)[NLT]: A corporate commitment to a customer that the value of an estimate plus appropriate contingency allowances will not be exceeded or be less than the firm proposal and estimates which will be submitted at a later date. The NTE or NTL [NLT] value can be adjusted by changes in the statement of work, requirements, and specifications. (1986:100)

This literature review found only this definition for the term not-to-exceed (NTE) price. According to the above information, the basic idea is giving a customer some boundary or limit on the total cost of a contractual effort. Thus, the following definition is provided for the term not-to-exceed (NTE) price:

A dollar limit set on a contract when the contractor begins work on a project or contractual amendment (e.g., a change order) before price negotiations are completed. The final price negotiated for the contract cannot be greater than the not-to-exceed price.

#### Offeror

Black's Law Dictionary defines offeror as "In contracts, the party who makes the offer and looks for acceptance from the offeree" (1990:1082). The Dictionary of Purchasing defines offeror as "a person who makes an offer" (1986:21) and defines offer as "to bid, to present for approval" (1986:21).

There appears to be close agreement on the meaning of the term offeror. According to the above sources, the basic idea seems to be that an offeror is someone who gives a bid

or proposal to someone else. Since the published definitions are so similar, this explanation appears to be well-established.

Thus, based on the above information, the synthesized definition is:

The one who presents a bid or proposal to another for acceptance or rejection.

### Overhead

The terms overhead, burden and indirect costs seem to be used synonymously. The Dictionary of Cost's entry for overhead includes the following:

OVERHEAD: (Indirect) A cost which, because of its incurrence for common or joint objectives, is not readily subject to treatment as a direct cost. (1986:103).

The Glossary defines indirect costs in the same way (1985:Appendix B, 35).

Under the term overhead in the ASPM, the reader is directed to the term indirect cost (DOD, 1986:B-7). The ASPM defines indirect cost as:

Any cost not directly identified with a single final cost objective but identified with two or more final cost objectives or with at least one intermediate cost objective. Also referred to as overhead or burden. (DOD, 1986:B-6)

Burden is defined in the Glossary as "Costs which cannot be attributed or assigned to a system as direct cost (overhead rates, general and administrative expenses, etc.)" (1985:Appendix B, 10). People looking up the term burden in

the Dictionary of Cost are referred to the terms indirect and overhead (1986:23). The Dictionary of Cost defines indirect cost as:

An item of cost which is incurred for joint usage, and, therefore, cannot be identified specifically with a single product, service, program, function, or project. Normally used synonymously with overhead costs. (1986:79)

Thus, the literature seems to use these terms interchangeably. All of these definitions appear to be concerned with the idea of costs that are incurred for more than one cost objective. Accordingly, the synthesized definition for both overhead and burden is:

Costs which are incurred for more than one cost objective and are not exclusively incurred for any one product or service. An example would be general and administrative expenses.

#### Pre-Bid Conference

The Dictionary of Purchasing defines the term pre-bid conference as a:

meeting held with prospective bidders prior to solicitation of bids or proposals, to recognize state of the art limits, technical aspects, specifications, and standards relative to the subject, and to elicit expertise and bidders interest in pursuing the task. (1986:23)

The Desktop Guide defines it as:

A conference held with prospective bidders prior to the submission of a bid to clarify any ambiguous situations, answer bidder questions, and ensure that all bidders have a common basis of understanding regarding the supplies or services required; called Pre-Proposal Conference in a negotiated procurement. (1990:38)

These two definitions were the only ones found for this term in this literature search. They were reviewed and the one appearing in the Desktop Guide was chosen for the synthesized definition. It is believed that this one provides a clearer explanation of this term.

Based on the above information, the synthesized definition is:

A conference held with prospective bidders prior to the submission of a bid to clarify any ambiguous situations, answer bidder questions, and ensure that all bidders have a common basis of understanding regarding the supplies or services required ... (Desktop Guide, 1990:38)

#### Pre-Solicitation Conference

The Glossary defines the term pre-solicitation conference as:

A meeting held with potential contractors prior to a formal solicitation, to discuss technical and other problems connected with a proposed procurement. The conference is also used to elicit the interest of prospective contractors in pursuing the task. (1985:Appendix B, 56)

The Desktop Guide defines it as:

A meeting held with potential contractors or subcontractors prior to a formal solicitation, to discuss technical and other problems connected with a proposed procurement. The conference is also used to elicit the interest of prospective contractors in pursuing the task, such as an R&D effort. (1990:38)

Thus, according to this literature review, the purpose of a pre-solicitation conference is to answer questions about a proposed procurement and to generate interest in it.

These definitions are very similar. Since there appears to be close agreement on the meaning of this term, it was left unchanged. The definition appearing in the Glossary was chosen for use as the synthesized version because it is more concise.

Based on the above information, the synthesized definition for pre-solicitation conference is:

A meeting held with potential contractors prior to a formal solicitation, to discuss technical and other problems connected with a proposed procurement. The conference is also used to elicit the interest of prospective contractors in pursuing the task. (Glossary, 1985:Appendix B, 56)

#### Price Competition

According to Keyes:

Price competition exists if offers are solicited and (A) at least two responsible offerors (B) who can satisfy the purchaser's (e.g., the Government's) requirements (C) independently contend for a contract to be awarded to the responsive and responsible offeror submitting the lowest evaluated price (D) by submitting priced offers responsive to the expressed requirements of the solicitation. (1987:Letter P,31)

This is based on the FAR definition (15.804-3(b)(1)). The definition that appears in the Compendium (1981:536) is similar to the one in Keyes.

These definitions are based on the FAR. They say, in other words, that in order to have price competition, at least two responsible offerors are needed who can meet the



contractual requirements. When this is case, the offeror who proposes the lowest price wins the contract.

No big changes were made in the synthesized version. Basically, the synthesized definition has just been reworded to make it easier to understand.

Therefore, the synthesized definition for price competition is:

At least two responsible offerors who can satisfy the purchaser's requirements independently compete for a contract to be awarded to the responsive and responsible offeror submitting the lowest evaluated price by submitting priced offers responsive to the expressed requirements of the solicitation.

#### Purchase Request

The Desktop Guide defines the term purchase request as:

An exact description of a product or service, used in invitations for bids, requests for proposals, and contracts to tell prospective suppliers precisely what is required. (1990:41)

The Dictionary of Cost defines it as:

A document prepared by a requirements office stating the requirement in quantities and delivery dates for material or services and authorizing the procurement office to proceed with acquisition of the material or services. (1986:119)

Both definitions agree on the basic purpose of the purchase request. Thus, according to this literature review, a purchase request provides information regarding the product or service to be purchased. The synthesized

definition for purchase request is:

A document containing an exact description of the product or service to be acquired including the required quantities and delivery dates.

#### Target Price

This literature review found only one definition of this term. The General Accounting Office (GAO) defines target price as " ... an estimated price negotiated by the government and contractor. It is composed of two elements, a contractor's allowable costs and profit" (1987:1).

In a fixed price incentive contract, the allowable costs are usually identified as the target cost and the profit, as target profit. Thus, the target price is the combination of the two.

Based on the above information, a synthesized definition is:

The combination of allowable costs (target cost) and target profit.

#### Work Breakdown Structure

The term work breakdown structure is defined in the

#### Glossary as:

A product-oriented family tree division of hardware, software, services, and other work tasks which organizes, defines, and graphically displays the product to be produced, as well as the work to be accomplished to achieve the specified product. (1985:Appendix B, 83)

This definition is similar to the ones in the Dictionary of Cost (1986:156) and the Desktop Guide (1990:50). The Dictionary of Cost also states that the work breakdown structure is:

A management technique for subdividing a total job into its component elements, which then can be displayed in a manner to show the relationship of these elements to each other and to the whole.  
(1986:156)

There seems to be close agreement already on the meaning of this term. These published sources appear to be using this term in the same way. The Dictionary of Cost definition was chosen as the synthesized version because its opening sentence added some extra information which clarifies the meaning.

Based on the above information the synthesized definition for work breakdown structure is:

A management technique for subdividing a total job into its component elements, which then can be displayed in a manner to show the relationship of these elements to each other and to the whole. A product-oriented family tree division of hardware, software, services, and other work tasks which organizes, defines, and graphically displays the product to be produced as well as the work to be accomplished to achieve the specified product.  
(Dictionary of Cost, 1986:156)

Thus, this chapter has presented the proposed definitions established on the basis of this literature review.

The next step was to send a survey to a randomly selected group of contracting professionals to determine whether or not they agreed with the proposed definitions.

The survey is described in chapter III, Methodology, and the survey results are contained in chapter IV, Data Analysis.

### III. Methodology

#### Introduction

As stated earlier, this thesis is part of an ongoing research program to define contracting terms. The overall goal is to produce a dictionary of contracting terms defined on the basis of their current usage.

This thesis will examine 25 contracting terms and provide a comprehensive definition for each one. The objective is to provide an accurate, thoroughly researched definition for each contracting term. As stated earlier, the terms were chosen from a master list established in Hauf's thesis (1990).

#### Method

The method for establishing these definitions is based on the procedures used by Ryan (1988:8-15) and Moyle (1990:3-2 to 3-9).

In his thesis, Ryan researched the definitions, sent his "synthesized" (1988:9) versions to a group of contracting professionals for their review and then modified the definitions as necessary, based on the comments of the respondents (1988:8-15).

In her thesis, Moyle asked respondents to her survey to provide their answers on a Likert scale. She also allowed them to provide additional comments (1990:3-3 to 3-4). In

order to obtain a large response to her survey, she used techniques based on Don A. Dillman's book: Mail and Telephone Surveys, The Total Design Method (Moyle, 1990:3-4 to 3-6).

For this thesis, as the first step in determining the meaning of a given term, the current professional literature was researched to see how it was used. Then these meanings were combined into one comprehensive definition.

After the 25 contracting terms were defined, a survey was mailed to a randomly selected group of contracting professionals who are certified by the National Contract Management Association (NCMA) as Certified Professional Contract Managers (CPCMs).

The NCMA is a professional association of acquisition people. It gives a CPCM examination to test the technical knowledge of contracting professionals. Those who pass this examination are certified by the NCMA as having demonstrated a high level of technical knowledge of contracting.

Since the CPCMs have been recognized for their technical knowledge, it is believed that they are qualified to judge the accuracy of a term's meaning (Pursch, 1991).

A mailing list of CPCMs, which contained 3,481 names, was obtained from the NCMA (1991). The sample size was selected on the basis of the following formula:

$$n = \frac{N(z^2) \times p(1-p)}{(N-1)(d^2) + [(z^2) \times p(1-p)]} \quad (1)$$

where

n = sample size

N = population size of 3,481

p = maximum sample size factor (.50)

d = desired tolerance (.1)

z = factor of assurance (1.645) for 90% confidence level

(HQ USAF/ACM, 1974).

The values used in equation 1 for calculating the sample size came from McClave (1991:345), Miller (1991), NCMA mailing list (1991) and HQ USAF/ACM (1974). Solving this formula results in a sample size of 67. In order to receive at least 67 replies, a total of 145 questionnaires were mailed out.

Since the names on the mailing list were in alphabetical order, a computer program was used to generate a list of random numbers between 0 and 3482. The names that corresponded to the numbers were chosen from the mailing list to receive the survey.

The randomly selected group of CPCMs received a survey (see Appendix D) consisting of a Likert scale. This scale requests respondents to record their opinions on a five-part scale that allows them to mark one of the following choices:

strongly agree, agree, undecided, disagree, strongly disagree (Emory, 1985:255). The survey also allowed people to write down additional comments, if they wished to do that.

As stated above, Moyle used some techniques recommended by Don A. Dillman to increase responses to her survey. This research also used some of Dillman's ideas.

To begin with, the cover letter (see Appendix A) sent with the survey followed a pattern recommended by Dillman (1978). According to Dillman:

The first paragraph of the letter is designed to do two things--(1) explain what the study is about and (2) convince the respondent that the study is useful.  
(1978:165)

Thus, the first paragraph of the cover letter explained the purpose and importance of the NCMA dictionary.

Next, according to Dillman:

The second paragraph of the cover letter seeks to convince the respondent that his or her response (or that of someone else in the household) is important and that no one else's can be substituted ... (1978:168)

Therefore, the second paragraph of the cover letter stressed the importance of each person's reply.

The third paragraph assured people that their replies would be confidential, in accordance with Dillman's recommended pattern:

The third paragraph promises confidentiality, a concern for increasing numbers of respondents ... (1978:170).



Finally, the last paragraph repeated the importance of this work, again, in accordance with Dillman's recommended pattern:

The fourth paragraph of our cover letter reemphasizes the basic justification for the study--its social usefulness. (1978:171)

Dillman also stresses the importance of follow-up reminders. As he states:

A well-planned follow-up is more than a reminder service. Each mailing provides a fresh opportunity for the researcher to appeal for the return of a questionnaire, using a slightly new approach. (1978:181)

Dillman recommends that the first reminder be sent one week after the survey is mailed out (1978:183). His advice:

A postcard reminder sent to everyone. It serves as both a thank you for those who have responded and as a friendly and courteous reminder for those who have not. (1978:183)

Among the information that should be included, according to Dillman, are the following items:

Tie to previous letter  
Thanks to early responders  
Why recipient is important  
Invitation to get replacement questionnaire  
(1978:184)

Therefore, a postcard containing this information was mailed to all survey members one week after the survey was first sent out (see Appendix B).

After three weeks, Dillman recommends:

A letter and replacement questionnaire sent only to nonrespondents. Nearly the same in appearance as the original mailout, it has a shorter cover letter

that informs nonrespondents that their questionnaire has not been received, and appeals for its return. (1978:183)

In this case, the follow-up letter (see Appendix C) and replacement questionnaire were sent out four weeks after the survey was mailed out.

When the surveys were distributed, it was decided that if a majority of the respondents agreed with a term's definition, it would remain unchanged. If a majority disagreed with a definition, that definition would be revised to reflect the majority's opinion.

The purpose of this dictionary is to define words as they are being used. If a term is being used in different ways, people should be made aware of this. Thus, when they begin to negotiate, they will know that, during negotiations, they will need to check with the other participants to determine how they are using the word.

#### IV. Data Analysis

This chapter discusses the results of the survey (see Appendix D). First, the survey definition is given. Next, the number of people marking each rating category is shown. Then, several comments chosen from those given in the survey responses are presented. A brief discussion of the term follows, which explains why the survey definition was or was not changed.

A total of 82 replies were received. Since the formula used to determine the necessary sample size required 67 replies, Dillman's final step, sending a certified mailing (1978:183,188-190), was not used.

A total of 145 surveys were sent out. Eight people returned their copies without responding either because they were retired or no longer in contracting. Eighteen were returned because of wrong addresses. Eighty-two usable replies were received.

The response rate, based on 90 replies (the 8 that were returned with no answers and the 82 usable ones) is  $90/145$  or 62.07%. If the 18 bad addresses are subtracted from the total of 145, the response rate is  $90/127$  or 70.87%.

The response rate based on the 82 usable replies is  $82/145$  or 56.55%. If the 18 bad addresses are subtracted

from the total of 145, the response rate is 82/127 or 64.57%.

When the surveys were returned, it was found that a majority agreed with each term's definition. However, there were a number of useful comments both from those who agreed with a given definition and from those who did not. Several terms were revised in accordance with some of the suggestions that were made.

The survey results are presented on a term by term basis.

#### Advance Acquisition

The acquisition of long leadtime items or large quantities of items in a fiscal year in advance of that in which the related end item is to be acquired. May include the costs associated with processing those items purchased in advance.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
2	4	3	14	30	29

Thus, over half of the respondents (71.95%) agreed with this explanation of the term's meaning.

Comments included:

Fiscal year contracting is inefficient and wasteful.

I always called these long lead contracts.

The term I most commonly associate with this definition is "Advance Buy". "Advance acquisition" is the same thing.

Comments from those who were undecided about the definition included:

Never use word in its own definition!

". . . in advance of that" what?

Comments from those who disagreed included:

Your definition sounds more like multiyear contracts.

Since a majority of the survey respondents agreed with the term's definition, it was basically left unchanged. The use of the words "advance" and "acquisition" in the explanation is not regarded as a problem, since it is not those individual words being defined. Rather, it is the concept denoted by the combination of those words that is being explained.

However, some changes were made to clarify the meaning. The words "fiscal year" have been placed after the word "that" in the first sentence. The revised definition is:

**ADVANCE ACQUISITION:** The acquisition of long leadtime items or large quantities of items in a fiscal year in advance of that fiscal year in which the related end item is to be acquired. May include the costs associated with processing those items purchased in advance.

### Auctioning

Federal government personnel shall not engage in auction techniques such as (a) Indicating to an offeror a cost or price that it must meet to obtain further consideration; (b) Advising an offeror of its price standing relative to another offeror (however, it is permissible to inform an offeror that its cost or price is considered by the government to be too high or unrealistic); and (c) Otherwise furnishing information about other offerors' prices. (Desktop Guide, 1990:13)

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	3	8	1	24	46

A majority (85.37%) of the survey respondents agreed with this definition.

Several people thought that Best and Final Offers should be included in the definition. Some of the comments from those who agreed with the definition included:

Include multiple Best & Final.

The use by some Govt agencies of requesting sellers to provide Best & Final Offers (BAFOs) borders on auctioning in competitive procurements. The above definition is OK as far as it goes but it would appear that the Govt should discontinue the practice of requesting BAFOs & then include it adding to the above 3 prohibited practices.

Comments from those who disagreed with the definition included:

All of the above is OK, but what is missing is more than one Best & Final (BAFO) cycle, which is also auctioning.

What you're describing is not auctioning but it is a violation of procurement integrity. Auctioning occurs when several BAFOs are used to see how low a contractor would be willing to propose to win and not because any other legitimate reason for a BAFO exists.

Some other comments from people who agreed with the definition included:

OK as a definition. Informing offerors that their prices are "too high" or "unrealistic" can be a questionable practice.

Not to be confused with the buyer's right to tell all offerors what the government is willing to pay with other than price driving competition.

Some other comments from those who disagreed with the definition included:

Merely advising someone that their price is too high--lead to subtle auctioning--i. e., other party asks "how much too high? or What if I dropped my price by x? Answer--That's still too high, and so on.

(a) does not have to be auctioning, it can be used for design to cost.

(b) is OK in debriefing for losers after the source selected has been awarded the contract.

There should be a circumstance and intent under which (a), (b), (c), are used to be "auctioning".

Another person underlined the fifth and sixth lines of the definition and put the comment: NO!

Although this definition is based on FAR 15.610 (e) (2), it seems that at least some people would like to see repeated BAFOs prohibited and some others disapprove of

telling an offeror that his price is too high or unrealistic.

It is recommended that more research be done on this term. If enough people feel strongly about the above issues, perhaps the FAR could be revised.

For the time being, the changes that the survey respondents recommended have not been made because those changes would contradict the FAR.

One respondent, who agreed with the definition, made the following comment:

If you continue to state prohibition, please cite appropriate regulation(s), not a "guide"

The FAR, in section 15.610 (e), before it defines auction techniques, says:

The following conduct may constitute prohibited conduct under section 27 of the Office of Federal Procurement Policy Act, as amended (41 U.S.C. 423), and subpart 3.104 to which civil and criminal penalties and administrative remedies apply. (FAR 15.610 (e))

Therefore, the FAR definition of auction techniques is used as the final proposed definition.

**AUCTIONING:**

(i) Indicating to an offeror a cost or price that it must meet to obtain further consideration;

(ii) Advising an offeror of its price standing relative to another offeror (however, it is permissible to inform an offeror that its cost or price is considered by the Government to be too high or unrealistic); and

(iii) Otherwise furnishing information about other offerors' prices. (FAR 15.610(e)(2))



## Bid

An offer to perform a contract by providing labor or material for a specific price. In federal government contracting, this offer is provided in response to a request for proposal or invitation for bid.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	11	19	2	26	24

Forty-nine people (60.98%) agreed with this explanation. However, many of the respondents felt that a bid is provided in response to an invitation for bid only. Both those who agreed and those who disagreed with this definition made comments to that effect.

Some of the comments from those who disagreed included:

Bid is in response to an IFB.

A bid is only in response to an IFB.

Take out words in 2nd sentence "request for proposal", then I would accept 5.

The same type of comments were made by those who agreed with the definition. These comments included:

Bids result from IFBs.

Strictly speaking, Bid is in response to IFB while RFP/RFQ call for responses.

Also, some people, including both those who agreed and those who did not, felt that the phrase "labor or material" should be "labor and/or material".

Therefore, the phrase "labor and/or material" is used and the phrase "request for proposal" is deleted. The revised definition is:

**BID:** An offer to perform a contract by providing labor and/or material for a specific price. In federal government contracting, this offer is provided in response to an invitation for bid.

#### Bid and Proposal Costs

Costs incurred in preparing, submitting and supporting bids and proposals in an attempt to get a contract.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	2	7	1	23	49

A large majority (87.80%) agreed with the definition of this term. Comments included:

Incomplete(?) Costs incurred in receiving, reviewing and deciding whether to respond to RFPs or IFBs and if decision is to respond, costs incurred in preparing, submitting and supporting such proposals or bids

One person marked out the word "get" and put in the word "win". Two people suggested replacing the word "get"

with "obtain" and a person who disagreed with the definition substituted the words "compete for" for the word "get".

Other comments from respondents who disagreed with the definition included:

Do not use word "cost" when you are trying to define it--allowable/allocable amounts.

This is an area in which greater clarification is needed. Are all preaward activities B & P cost, i.e., supporting bids? Or does this fall into another category such as general & administrative?

Since a large majority of the survey respondents agreed with definition, it was basically left unchanged. The use of the word "cost" is defended since that word is not being explained. Instead, a specific type of cost is being defined. However, the word "get" was replaced by the word "win" since that seemed to sound better.

The revised definition is:

BID AND PROPOSAL COSTS: Costs incurred in preparing, submitting and supporting bids and proposals in an attempt to win a contract.

#### Bid Opening

The public opening of bids which are recorded and made available for public inspection. (Dictionary of Purchasing, 1986:3)

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	0	1	1	24	56

Almost all (97.56%) of the respondents agreed with this definition. There were fewer comments for this term than for some of the others. Comments included:

I like: The public opening and revelation of the contents of sealed bids. The recording is another action.

The following comment came from a person who was undecided about the meaning:

I'd strongly agree if this said opening of bids responding to "Invitation for Bids--(IFBs)". Inasmuch as "bids" are also submitted for "Requests for Proposals--(RFPs)"--which are not advertised procurements & are therefore not a public opening--I'd say it's inaccurate without this distinction.

In response to this comment, under the term Bid, the definition was changed to indicate a response to IFBs only. Thus, the differentiation has been made under the term Bid, not under this term.

Other comments from those who agreed with the definition included:

Should be limited to sealed bid procedures only.

Time, date and location of bid opening must be given in Invitation to Bid.

Because so many of the survey respondents agreed with this definition, it is left unchanged as follows:

**BID OPENING:** The public opening of bids which are recorded and made available for public inspection. (Dictionary of Purchasing, 1986:3).

#### Bid Withdrawal

The act of removing a bid from the buyer's consideration.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	2	6	1	31	41

Thus, a large majority (87.80%) agreed with this definition. However, several people believed it should be somewhat expanded. Some of the comments included:

Recommend clarification that it is the act of the bidder or offeror to remove a bid.

The act of a bidder removing her/his bid from buyer's consideration.

Clarify who is taking the action of withdrawing the bid.

Bid must be withdrawn prior to bid opening.

One person suggested inserting the words "by the bidder" after the word "bid".

The following comments from those who disagreed with the definition were similar to the ones above.

Offeror's removal from the prospective purchaser's.

Should include the words "prior to bid opening"

Based on these comments, the words "by the bidder" are added in parentheses after the word bid. However, the phrase "prior to bid opening" has not been added since this explanation is only describing what the term means, not when it happens. Thus, the revised definition is:

BID WITHDRAWAL: The act of removing a bid (by the bidder) from the buyer's consideration.

### Burden

The term burden is used synonymously with the terms overhead and indirect costs. Therefore, it is discussed and defined under the term overhead.

This information was put in for explanation purposes. No ratings or comments were expected and a lot of people did not put either. However, some people did put comments, and 13 people indicated agreement and 2 people disagreed.

The following comment came from someone who did not choose a rating:

It is defined under the terms of indirect costs not overhead.

Comments from those who disagreed included:

In my circles, burden continues to be used to describe costs other than direct labor and material and applied or expressed as a function of direct cost e.g., labor burden, material burden, subcontract burden

### Ceiling Price

The maximum amount a customer will pay under a cost-sharing type contract.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	10	10	7	26	29

Over half (67.07%) of the respondents agreed with this definition. However, the words "cost-sharing" were a problem for some of them. Some people interpreted this to refer to a cost-type contract as opposed to a fixed-price contract. Some of the comments from those who agreed with the definition included:

Term applies only to maximum price payable under a fixed price incentive contract.

Do you consider an FPIF contract to be a "cost-sharing" contract?

Similar comments were made by those who disagreed with the definition, as follows:

This term applies to a FPIF type contract not a CPIF.

Ceiling price is a term used with a fixed price incentive contract, not a cost reimburseable contract.

Ceiling Price is a term I most often associate with FPIF type Kts.

According to the ASPM:

Fixed-price arrangements have in common an agreement by the contractor to deliver a product or perform a service in accordance with the terms and conditions of the contract and an agreement by the Government to pay a price equal to the firm price specified in the contract or, if the contract includes a tentative price subject to later adjustment, at no more than a specified ceiling.

In contrast, cost-reimbursement arrangements are agreements by the Government to reimburse contractors for monies expended, subject to certain restrictions and any special understandings negotiated.  
(DOD, 1986:1-10 to 1-11)

Thus, the survey definition has been modified to avoid confusion. The words "cost-sharing type contract" have been replaced with the words "fixed-price type of contract that calls for some cost-sharing, such as FPIF".

One survey respondent, who agreed with the definition, suggested replacing the word "will" with "is obligated". This change has been incorporated into the explanation.

The revised definition is :

CEILING PRICE: The maximum amount a customer is obligated to pay under a fixed-price type of contract that calls for some cost-sharing, such as FPIF.

### Cost Analysis

The review and evaluation of a contractor's cost or pricing data in order to determine the fairness and reasonableness of the contractor's proposed price. All of the information used by the seller in setting his price is examined in an effort to ensure that the seller is not overcharging.

After contract award, the collection and study of cost information.



The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	9	12	4	32	24

While over half (68.29%) of the survey respondents agreed with this explanation, it generated a lot of comments. Some of them were as follows:

The definition should include some comment on profit.

Analysis of the individual cost elements.

Might see if proposed cost covers all aspects ... that it is enough to do the job.

Cost analysis doesn't determine price fairness or reasonableness. It determines cost fairness and reasonableness.

One person marked out the word "used" in the second sentence and replaced it with "presented" and added the words "or undercharging" after the word "overcharging".

Another person circled the word "All" in the second sentence and commented: seldom true in practice.

Another person also circled the word "all" and drew a question mark.

Some of the comments of those who disagreed with the definition were as follows:

Why presume sellers overcharge?

It is an evaluation of the individual elements of cost

After ensure add: That the price is fair and reasonable

The objective of cost analysis is to assure reasonableness not, necessarily, to prevent overcharging. Areas identified as being underpriced should be brought to the attention of the seller.

Cost analysis is one thing while Price Analysis is something else.

A few people, including those who agreed, disagreed or were undecided, had problems with or objected to the sentence in the second paragraph.

According to FAR 15.801:

"Cost analysis" means the review and evaluation of the separate cost elements and proposed profit of (a) an offeror's or contractor's cost or pricing data ...

Thus, cost analysis does include the evaluation of a contractor's profit. However, since the words "pricing data" are included in the survey definition and price is a combination of cost and profit, the word "profit" has not been added to this explanation.

In the second sentence in the first paragraph, the word "used" has been replaced with the word "presented" and the words "seller in not overcharging" have been replaced with "cost is fair and reasonable". The word "price" has been replaced with the word "cost".

The sentence in the second paragraph has been deleted.

The revised definition is:

COST ANALYSIS: The review and evaluation of a contractor's cost or pricing data in order to determine

the fairness and reasonableness of the contractor's proposed cost. All of the information presented by the seller in setting his cost is examined in an effort to ensure that the cost is fair and reasonable.

### Cost Element

The cost associated with a given function, process or item. It is a subdivision of an overall cost category.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	2	5	7	24	44

Although a large majority (82.93%) of the survey respondents agreed with this definition, some exceptions were taken. One person underlined the second sentence and made the following comment:

Not necessarily.

Other comments included:

A cost element may be its own cost category such as material.

Does this get at material, material burden, labor, labor burden, overhead--or something else?

Some of the comments from those who disagreed with the definition were as follows:

Do not agree it is a subdivision of an overall cost category.

A cost element is the category of the proposal where costs will be incurred, not the actual costs themselves.

It is not "associated with", but rather the "cost of"--as defined in a contractor's cost classification or cost accumulation system.

The term "cost element" to me, is the element of cost (i. e. Engineering Labor, Mfg Labor, G & A, etc.)--it is not the cost (dollars) associated with it.

In view of the above comments, the words "The cost associated with" have been replaced by the words "Part of an overall cost category".

The revised definition is:

COST ELEMENT: Part of an overall cost category consisting of a given function, process or item.

#### Cost Overrun

An increase in contractual amount over the estimated cost of a contract. It does not include cost increases due to authorized changes such as an increase in quantity or an engineering change.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	8	5	3	25	40

A majority (79.27%) of the survey respondents agreed with this explanation. Some of the comments included:

However cost overruns can occur in FFP contracts with no increase to contractual amount--Ktr absorbs the loss.

Cost overruns are not applicable to Fixed Price Contracts.

Cost overruns also occur on FFP type contracts where liability usually falls on the contractor to complete the work with no additional compensation unless he can demonstrate he was directed properly to do out of scope effort.

Cost overrun is that cost which exceeds a prior approved estimate without a scope change

One person suggested inserting the word "actual" between "in" and "contractual" and replacing the word "amount" with "costs".

Some of the comments from those who disagreed with the definition included:

The contractual amount does not have to be increased for a cost overrun to occur.

The above definition implies automatic approval. A contractor can incur an overrun and not receive an increase in contract amount!

An increase in the actual incurred costs of a contract beyond the contractual amount

You can have an overrun without an increase in contract amount.

There seemed to be agreement that a cost overrun does not always lead to an increase in the contract price. Some people, (although not everyone), believed a cost overrun could occur on a fixed price contract. Thus, the word "amount" has been changed to "costs". The revised definition is:

**COST OVERRUN:** An increase in contractual costs over the estimated cost of a contract. It does not include cost increases due to authorized changes such as an increase in quantity or an engineering change.

#### **Cost Reimbursement**

Refers to a family of pricing arrangements that provide for payment of allowable, allocable and reasonable costs incurred in the performance of a contract, to the extent that such costs are prescribed or permitted by the contract. (Dictionary of Cost, 1986:43)

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	0	3	0	16	63

A large majority (96.34%) of the survey respondents agreed with this term's definition. There were not as many comments for this term as there were for some of the others.

One person suggested replacing the word "family" with the word "group". Another recommended inserting the phrase "type of contract based upon a" after the words "Refers to a" in the first sentence.

Other comments included:

Fixed price costs are reimbursed the same way, and must meet the same standard

Comments from those who disagreed with the survey explanation included:

This does not differentiate from fixed price which also allows payment of allowable, allocable & reasonable cost incurred to the extent allowed by the contract.

In response to these comments, the following passage from the ASPM is cited:

Fixed-price arrangements have in common an agreement by the contractor to deliver a product or perform a service in accordance with the terms and conditions of the contract and an agreement by the Government to pay a price equal to the firm price specified in the contract or, if the contract includes a tentative price subject to later adjustment, at no more than a specified ceiling.

In contrast, cost-reimbursement arrangements are agreements by the Government to reimburse contractors for monies expended, subject to certain restrictions and any special understandings negotiated. The parties agree to an estimate of total costs and the Government is not obligated to reimburse the contractor for costs incurred in excess of that estimated amount. (DOD, 1986:1-10 to 1-11)

In view of the strong agreement with this definition, it is left unchanged as follows:

COST REIMBURSEMENT: Refers to a family of pricing arrangements that provide for payment of allowable, allocable and reasonable costs incurred in the performance of a contract, to the extent that such costs are prescribed or permitted by the contract. (Dictionary of Cost, 1986:43)

### Cost Risk

An assumption of possible monetary loss or gain in light of the job or work to be done. One of the elements to be considered in the negotiation of a fair and reasonable price, as well as in determining the type of contract under which performance will occur. (DOD, 1986:B-4)

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	0	1	0	31	50

Almost all (98.78%) of the survey respondents agreed with this definition. There were not as many comments for this term as there were for some of the others. The comments included the following:

Cost risk is also considered when negotiating PROFIT

May want to mention something about the use of cost risk in developing a reasonable profit.

One person suggested replacing the words "job" and "work" in the first sentence with the word "performance".

In view of the strong agreement with this term's definition, it is left unchanged as follows:

COST RISK: An assumption of possible monetary loss or gain in light of the job or work to be done. One of the elements to be considered in the negotiation of a fair and reasonable price, as well as in determining the type of contract under which performance will occur. (DOD, 1986:B-4)

#### Established Catalog Price

A price included in a catalog, price list, schedule, or other form that (1) is regularly maintained by a manufacturer or vendor, (2) is published or made available for inspection by customers, and (3) states prices at which sales are currently or were last made to a significant number of buyers constituting the general public. (DOD, 1986:B-5)

The survey results for this definition were as follows:



No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	0	1	2	15	63

A large majority (95.12%) of the survey respondents agreed with this term's definition. Some of the comments included the following:

The words "or their authorized agents," should be added after "manufacturer or vendor".

Are these all of the criteria applied by the FAR?

One person thought the words "the general public" should be replaced with the words "commercial industry".

This definition contains the criteria set forth in FAR 15.804-3 (c) (1). In view of the strong agreement with this term's definition, it is left unchanged as follows:

**ESTABLISHED CATALOG PRICE:** A price included in a catalog, price list, schedule, or other form that (1) is regularly maintained by a manufacturer or vendor, (2) is published or made available for inspection by customers, and (3) states prices at which sales are currently or were last made to a significant number of buyers constituting the general public. (DOD, 1986:B-5)

#### Field Pricing Support

The review and evaluation of a pricing proposal by any or all field pricing support personnel (such as price analysts or engineers) in order to provide a detailed analysis of the proposal that can be used in contract negotiations.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	1	3	4	31	43

Many (90.24%) of the survey respondents agreed with the definition of this term. Some of the comments included the following:

Auditors are involved in field pricing support too

Can also include support other than "review and evaluation of a pricing proposal"--altho that is normally what is involved.

Examples should include DCAA, DCAS, etc.

Why not cite DCAA as a group who typically perform such evaluations?

Another person wanted to insert the words "cost analysis" in parentheses after the words "pricing proposal" and made the following comment:

Adding (cost analysis) might make it very clear that pricing support and cost analysis are the same thing--unless you do not agree that they are.

Another respondent suggested removing the words "any or all" before the words "field pricing support personnel", and inserting the words "cost or price" before the words "analysis of the proposal".

Comments from those who disagreed included:

Field Pricing Support is that provided by the ACO and primarily consists of a DCAA audit. The engineering

evaluation results in a technical evaluation NOT pricing.

The "or all" phrase bothers me. The guidelines try to prevent duplicative auditing by several groups of contractors books & records

In this definition, field pricing support personnel would include auditors as well as other specialists. The phrase "such as price analysts or engineers" is intended to provide examples, not to be all-inclusive. Field pricing support could include cost analysis, but is not limited to that. Thus, the definition is left unchanged as follows:

FIELD PRICING SUPPORT: The review and evaluation of a pricing proposal by any or all field pricing support personnel (such as price analysts or engineers) in order to provide a detailed analysis of the proposal that can be used in contract negotiations.

#### Interim Pricing

The establishment of initial contract prices that are subject to change as more information becomes available. In some cases, the price will change for future deliveries only; in other cases, the price will change for all the deliveries, past and future.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	2	3	12	35	29

A majority (78.05%) of the survey respondents agreed with the definition of this term. Some of the comments were as follows:

Would add: "as specified in the contract"

Doesn't there need to be some reference to the time or times at which pricing will be re-determined?

I have not had a lot of exposure to this term.

One person recommended inserting the words "during negotiation" after the words "initial contract prices".

Of those who disagreed with the meaning of this term, were undecided or did not choose any rating, there were a few who were not familiar with it, as the following comments show:

Never used or heard of this term before

Not familiar with this concept unless you mean fixed price successive targets

I have never heard this term

I don't like--too much like BOAs

My experience is that interim pricing refers to advanced agreements on elements of cost which is subject to final analysis & determination as actual data becomes available.

As discussed in Chapter II, this literature review did not find much published information about interim pricing. Judging from the survey comments, it appears that at least some people do not use the term much, if at all.

It could be that further research on the meaning of this term is necessary. If people who do use interim

pricing frequently could be located, perhaps they could be surveyed to determine how they define this term.

The survey definition is based on information obtained from the ASPM. Also, a majority of the respondents agreed with it. Therefore, the definition is left unchanged as follows:

INTERIM PRICING: The establishment of initial contract prices that are subject to change as more information becomes available. In some cases, the price will change for future deliveries only; in other cases, the price will change for all the deliveries, past and future.

#### Not-To Exceed (NTE) Price

A dollar limit set on a contract when the contractor begins work on a project or contractual amendment (e.g., a change order) before price negotiations are completed. The final price negotiated for the contract cannot be greater than the not-to-exceed price.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	7	4	4	21	46

A majority (81.71%) of the survey respondents agreed with the definition of this term.

Two people recommended inserting the word "action" after the word "contract" in the first sentence.

One of these respondents marked out the words "on a project or contractual amendment (e.g., a change order)" and recommended inserting the following comment:

Specified in the document authorizing the work

Other comments included:

It should be noted that the contractor cannot exceed the NTE amount without approval from the Government

However, negotiations may have been completed in the event that a labor hour contract is used and this could have a NTE price

Several people who disagreed with the term's meaning or were undecided objected to the second sentence as the following comments show:

The final price has often been greater due to circumstances not foreseen and verification of prices actually paid by contractor

Change word in second sentence "cannot" to can and I would circle 5

Untrue if NTE used in a cost reimbursement scenario

The final price can be greater when conditions warrant it.

I have problems with the last sentence of the definition. It assumes that the NTE Price, which tends to be an interim ceiling, is reasonable to begin with.

One person underlined and put parentheses around the words "when the contractor begins work on a project or" and made the following comment: NTE could be set at any time.

Another person suggested inserting the words "or amendment" after the word "contract" in the second sentence.

Thus, several people believed that the NTE price could be exceeded. As noted in Chapter 2, this literature review found only one published definition of this term and it said:

NOT-TO-EXCEED (NTE) NOT LESS THAN (NTL)[NLT]: A corporate commitment to a customer that the value of an estimate plus appropriate contingency allowances will not be exceeded or be less than the firm proposal and estimates which will be submitted at a later date. The NTE or NTL [NLT] value can be adjusted by changes in the statement of work, requirements, and specifications. (Dictionary of Cost, 1986:100)

Because of this and because the majority of the survey respondents agreed with the survey definition, it is not changed. However, perhaps further research should be done on this term. If people are using it with the idea that the final price can be greater than the NTE, this should be discussed. Certainly the people negotiating an NTE price on their contract should know how both sides are defining this term.

The unchanged definition is:

NOT-TO-EXCEED (NTE) PRICE: A dollar limit set on a contract when the contractor begins work on a project or contractual amendment (e.g., a change order) before price negotiations are completed. The final price negotiated for the contract cannot be greater than the not-to-exceed price.

#### Offeror

The one who presents a bid or proposal to another for acceptance or rejection.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	0	3	1	23	54

A large majority (93.90%) agreed with this definition.

Some of the comments included:

Might want to say: "The organization or individual  
..."

Offeror can sometimes represent a teaming or joint  
venture in which case more than one entity is involved.

... or rejection or negotiation

One person marked out the word "another" and replaced  
it with the words "a buyer". Another person suggested  
replacing the word "another" with the words "a potential  
buyer".

A respondent who disagreed with the definition made the  
following comment:

Too rigid--negotiation is valid, not simply acceptance  
or rejection.

Based on the above comments, the following changes have  
been made to the survey definition. The words "The one"  
have been replaced with "The organization(s) or  
individual(s)". The word "another" has been replaced with  
"a potential buyer". These changes have been made to  
clarify the meaning of the term "offeror".



The word "negotiation" has not been added. Although negotiation is certainly possible, it involves rejecting an offer, at least in part, and making a counteroffer. Therefore, the last three words of the definition have not been changed.

The revised definition is:

OFFEROR: The organization(s) or individual(s) presenting a bid or proposal to a potential buyer for acceptance or rejection.

#### Overhead (and Burden)

Costs which are incurred for more than one cost objective and are not exclusively incurred for any one product or service. An example would be general and administrative expenses.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	3	6	4	28	40

A majority (82.93%) of the survey respondents agreed with this definition. However, not everyone agreed that overhead and burden were synonymous. Two people, one who agreed with the definition and one who did not, crossed out the word "Burden".

A respondent who agreed with the definition recommended changing "An example" to "Examples" and adding "engineering overhead etc" to the last sentence.

Other comments included:

I have seen instances where a distinction was made between "overhead" and "burden". In this usage, G&A and profit, COM, and occasionally other items, are separated from OH, and the total, of which Labor OH, M'tl OH, and other OH rates are parts, is collectively referred to as "Burden". Multiple OHs make up the singular "Burden".

The example re G&A bothers me somewhat inasmuch as G&A expenses are often set aside & or discussed as being outside of "overhead". Also--burden--true enough--would cover both overhead + G&A.

Comments from those who disagreed with the definition included the following:

I view overhead and G&A as separate types of indirect cost. Fringe benefit would be a better example.

Term should be indirect cost

There is usually a distinction between overhead and general & administrative expenses (G&A). The distinction is that overhead costs are usually limited to costs incurred for more than one cost objective in a given service area ie manufacturing. G&A is usually applied against all costs.

O/H, Fringe deal with specific labor for a product or service. G&A portion OK

While there is some disagreement with this definition, a large majority agreed with it. Therefore, it is basically left unchanged. The last sentence has been modified to include engineering overhead as an example. The revised definition is:

**OVERHEAD (AND BURDEN):** Costs which are incurred for more than one cost objective and are not exclusively incurred for any one product or service. Examples would include general and administrative expenses, engineering overhead, etc.

### **Pre-Bid Conference**

A conference held with prospective bidders prior to the submission of a bid to clarify any ambiguous situations, answer bidder questions, and ensure that all bidders have a common basis of understanding regarding the supplies or services required... (Desktop Guide, 1990:38)

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
0	0	0	1	14	67

Almost all (98.78%) of the survey respondents agreed with the definition of this term. Some of the comments included:

It doesn't "ensure" common basis of understanding, it only provides the opportunity for it if all attendees have same exposure to the same details and answers to all questions asked

Questions from bidders should be in writing and a record of the conference should be kept for the file

Two people recommended making the word "bid" plural.

Based on the high level of agreement with this term's definition, it is basically left unchanged. The last phrase was added for clarification as follows:

**PRE-BID CONFERENCE:** A conference held with prospective bidders prior to the submission of a bid to clarify any ambiguous situations, answer bidder questions, and ensure that all bidders have a common basis of understanding regarding the supplies or services required; called Pre-Proposal Conference in a negotiated procurement. (Desktop Guide, 1990:38)

### Pre-Solicitation Conference

A meeting held with potential contractors prior to a formal solicitation, to discuss technical and other problems connected with a proposed procurement. The conference is also used to elicit the interest of prospective contractors in pursuing the task. (Glossary, 1985:Appendix B, 56)

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	0	1	1	20	59

A large majority (96.34%) of the survey respondents agreed with the definition of this term. One person suggested replacing the word "problems" with the word "issues". Another one recommended replacing the words "problems connected" with the words "questions associated", and replacing the word "contractors" with the word "offerors".

One survey respondent, after the word "discuss", inserted the comment:

Statement of Work (SOW), Technical Specifications and provide a forum to discuss potential

and, after the word "problems", inserted the comment: or circumstances.

This person also marked out the phrase "The conference is also used" and inserted the comment:

Used when the proposed procurement is likely to generate questions that can best be answered or discussed in this forum and also

Comments from those who disagreed with the definition or did not choose a rating included:

More for clarification if req'd than specifically problems.

Usually associated with "Negotiation" procedures.

Another person, who chose the undecided rating, inserted the words: "issues and acquisition planning" after the word "technical" and marked out the words "and other problems." This person also marked out the word "proposed" and replaced it with "contemplated".

Because of the high level of agreement with this definition, it is left unchanged as follows:

PRE-SOLICITATION CONFERENCE: A meeting held with potential contractors prior to a formal solicitation, to discuss technical and other problems connected with a proposed procurement. The conference is also used to elicit the interest of prospective contractors in pursuing the task. (Glossary, 1985:Appendix B, 56)

### Price Competition

The result of at least two responsible offerors, who can satisfy the purchaser's requirements, independently competing for a contract to be awarded to the responsive and responsible offeror submitting the lowest evaluated priced

offer responsive to the solicitation's expressed requirements.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	1	12	2	17	49

A majority (80.49%) of the survey respondents agreed with this definition. However, some people thought the explanation was too wordy. Two people, one who agreed with the definition and one who did not choose a rating, marked out the words "responsive and" in the third line.

Some people did not like the phrase "lowest evaluated priced offer". The following two comments came from respondents who disagreed with the definition.

What about best value? Depending on evaluation factors may not fit

In a negotiated procurement, the contract does not necessarily have to be awarded to the offeror  
"submitting the lowest evaluated priced offer"

A respondent who agreed with the definition made the following comment:

Does not consider Price Competition where other factors are also considered in making award.

Another respondent recommended changing the word "result" to "process". This person also suggested deleting the word "responsible" in the first line, replacing the word

"purchaser's" with the word "buyer's" and changing the words "who can satisfy" to "capable of satisfying".

While an award does not have to be based on price alone, price competition does mean taking the lowest price. The survey definition is based on information in FAR 15.804-3 (b) (1).

Other comments from people who disagreed with the definition included:

If the quotes are wide apart, there won't be price competition

I have yet to see a proposal which is 100% responsive to the solicitations expressed requirements.

Better to say "process" vice "result" in your definition

Another person who disagreed with the definition underlined and put parentheses around the phrase "who can satisfy the purchaser's requirements" and the word "responsive" in the third line and commented: understood. This person did the same to the word "responsible" in the third line and to the word "responsive" in the fourth line and commented: already stated in the first line.

In the revised definition, the phrase "at least two responsible offerors" has been changed to "two or more offerors" and the words "responsive and" have been deleted. The word "purchaser's" has been changed to "buyer's" and the words "who can satisfy" have been changed to "capable of

satisfying". The word "result" has been changed to "process". The revised definition is:

**PRICE COMPETITION:** The process of two or more offerors, capable of satisfying the buyer's requirements, independently competing for a contract to be awarded to the responsible offeror submitting the lowest evaluated priced offer responsive to the solicitation's expressed requirements.

#### Purchase Request

A document containing an exact description of the product or service to be acquired including the required quantities and delivery dates.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
3	1	7	1	32	38

A majority (85.37%) of the survey respondents agreed with this definition. However, several people, both those who agreed with the definition and those who did not, objected to the word "exact". Two comments, from respondents who agreed with the definition, were:

The description may not always be "exact"

Delete "exact"

Other comments from people who agreed with the definition included:

You need statement on availability of funds.



May want to say "including, but not limited to ..."

Along with many other things.

One respondent suggested changing the words "product or service" to "products and/or services".

Someone who disagreed with the definition made the following comment:

Deliverables need to be included.

Based on the above comments, the word "exact" has been removed from the definition and the phrase "including but not limited to" has been added. Also, the words "product or service" have been changed to "product(s) and/or service(s)". The revised definition is:

**PURCHASE REQUEST:** A document containing a description of the product(s) and/or service(s) to be acquired including, but not limited to, the required quantities and delivery dates.

#### Target Price

The combination of allowable costs (target cost) and target profit.

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	5	5	6	25	40

A majority (79.27%) of the survey respondents agreed with this definition.

One person, who agreed with the definition, marked out the words "allowable costs" and made the following comment:

The combination of target cost and target profit (which are anticipatory). Allowable cost is usually history.

Another person suggested inserting the word "target" after the word "allowable" and marked out the words "target cost". Another person recommended inserting the words "and allocable contract" after the word "allowable".

A respondent who disagreed with the definition put the word "estimated" above the word "allowable".

Another person, who marked the undecided rating, marked out the words "allowable costs" and the parentheses around the words "target cost" and put in the word "estimated" above the words "allowable costs".

Another undecided respondent marked out the words "allowable costs" and put the comment:

Target Price does equal Target Cost + Target profit. But, the definition of target cost is incomplete in the phrase "... allowable costs"

A respondent who disagreed with the definition made the comment:

No not "allowable" that is finally determined in the redetermination. It is a combination of negotiated cost & profit.

According to the ASPM:

The ingredients of a fixed-price incentive with firm target (FPIF) from the outset are target cost, target profit, target price, price ceiling, and share arrangement ... (DOD, 1986:Chap 1, 14)

The ASPM also states:

When the contract is completed, the contractor submits a statement of costs incurred in performance of the contract. These are audited to determine allowability and allocability to the contract and to point out costs that may not have been needed to perform the contract or are otherwise questionable. (DOD, 1986:Chap 1, 14).

Based on the above comments and the information in the ASPM, the words "allowable costs" have been removed. The revised definition is:

TARGET PRICE:The combination of target cost and target profit.

Work Breakdown Structure:

A management technique for subdividing a total job into its component elements, which then can be displayed in a manner to show the relationship of these elements to each other and to the whole. A product-oriented family tree division of hardware, software, services, and other work tasks which organizes, defines, and graphically displays the product to be produced as well as the work to be accomplished to achieve the specified product. (Dictionary of Cost, 1986:156)

The survey results for this definition were as follows:

No Mark	Strongly Disagree 1	Somewhat Disagree 2	Undecided 3	Somewhat Agree 4	Strongly Agree 5
1	0	0	6	26	49

A large majority (91.46%) of the survey respondents agreed with this definition. There were fewer comments on this definition than on some of the others.

One person, who agreed with the explanation, marked out the words "of hardware, software, services, and other work tasks".

Some of the other comments included:

Definition should be expanded to include that the basis for the work breakdown is the contract statement of work.

Used also for pricing--cost analysis.

Based on the high level of agreement with this term's definition, it is left unchanged as follows:

WORK BREAKDOWN STRUCTURE: A management technique for subdividing a total job into its component elements, which then can be displayed in a manner to show the relationship of these elements to each other and to the whole. A product-oriented family tree division of hardware, software, services, and other work tasks which organizes, defines, and graphically displays the product to be produced as well as the work to be accomplished to achieve the specified product. (Dictionary of Cost, 1986:156).

Thus, this chapter has revised the synthesized definitions in light of the comments made by the survey respondents. These final recommended definitions are also contained in Appendix E.

It is hoped that the final recommended definitions now reflect the way the majority of contracting professionals use the 25 terms discussed in this thesis.

The next chapter summarizes this thesis and provides recommendations for further research.

## V. Conclusions and Recommendations

### Summary

This thesis has examined the meanings of 25 contracting terms and has presented proposed definitions for them.

Chapter I discussed the basis of this work and explained the reasons for doing it. This chapter stated that the goal of this thesis was to provide a source that explained contracting terms as they are currently used.

In Chapter II, the terms that were to be defined were listed. Then, the research of the published literature concerning each term and the establishment of proposed definitions was presented.

Once the proposed definitions were established, it was necessary to learn if contracting professionals agreed with them. Chapter III described the methodology used to determine whether or not contracting professionals agreed with the proposed definitions. A survey was sent to selected CPCMs. This chapter explained how the survey was conducted. (A copy of the survey questionnaire can be found in Appendix D.) It also described the rating system that was used and how the results were tabulated.

Chapter IV presented the results of the survey that determined the degree of agreement with the proposed definitions. The ratings given to each term by the

respondents were presented and some of the comments made by the respondents were discussed.

Many of the people who replied to the survey questionnaire are currently working in the field (some are retired or have switched to different career fields). Their responses are useful because they reflect how the contracting terms are presently being used.

This chapter summarizes the thesis, presents conclusions and makes recommendations for further research.

The final recommended definitions, revised based on comments made by the survey respondents, were established and are presented in appendix E.

The other appendices contain the materials used for the survey. Appendix A contains the cover letter, appendix B shows the follow-up post card, appendix C shows the next follow-up letter and appendix D contains the survey questionnaire.

### Conclusions

Overall, this thesis has provided an interesting look at the meanings people attach to 25 contracting terms and has uncovered several terms that could be further investigated and studied. The survey respondents' comments showed that people had differing opinions on the meanings of these terms.

In his thesis, Ryan states:

When single words are pronounced the same and yet mean different things to different people, the situation is ripe for misunderstanding and inefficiency. (1988:2)

In this researcher's opinion, the comments made regarding the definitions of these terms support that statement.

Several of the definitions set forth in previous theses have been published in the May 1991 issue of Contract Management (Lamm and Pursch, 1991:41-46). Now that that has been done, it will be possible to learn if contracting professionals will use them and find them helpful.

This thesis has researched the meanings of 25 contracting terms from the master list established by Hauf in his thesis (1990) and has presented final recommended definitions based on this research. This work has shed additional light on the way that these terms are currently being used. It has also shown that disagreement exists over the meanings of these terms. If this research is to be useful, it must be publicized so that all contracting professionals can become aware of it.

The majority of these terms are cost and pricing terms. Since cost and price issues are important parts of the negotiating process, it is hoped that this research will help negotiators to understand one another better.

## Recommendations

This survey demonstrated the need for further research on three terms: auctioning, interim pricing and not-to-exceed (NTE) price. Each term is discussed in turn.

Several of the survey respondents felt that repeated Best and Final Offers (BAFOs) were a form of auctioning and should be prohibited. Others thought that telling someone his price was too high (which is permissible, according to FAR 15.610 (e) (2) (ii)) also led to auctioning and should be prohibited. Further research could be done to determine what people think about these issues. If enough people are opposed to them, perhaps the FAR could be revised.

Several of the survey respondents indicated that they did not use the term "interim pricing" much, if at all. Further research could be done by surveying people who do use interim pricing to learn how they define this term.

In defining the term "not-to-exceed price," this research showed that the final contract price cannot be greater than the not-to-exceed price. Several of the survey respondents disagreed with this statement. Since a majority agreed with the definition, it was not changed; however, more research could be done to learn how many people disagree and why they disagree with it. Certainly everyone involved with a contract that uses this term should come to an agreement on its meaning.



As mentioned earlier, several of the definitions set forth in previous theses have been published in the May 1991 issue of Contract Management (Lamm and Pursch, 1991:41-46). It would be interesting to know if these definitions are accepted and used by contracting professionals. Another researcher may want to do a survey to learn if contracting professionals found these definitions helpful. It is recommended that the NCMA continue to publish the results of research regarding the definitions of contracting terms.

As discussed in chapter III, Methodology, the survey questionnaire used for this research was sent to CPCMs. A recommendation that the CPCMs be surveyed was included in Randal G. Indvik's (a former AFIT student) thesis (1990:123).

While the response rate to this survey was very good, if future researchers choose to send surveys to the CPCMs, it is recommended that they send out a large number. The responses to this survey showed that a number of the mailing addresses were not current, and several people were retired and chose not to reply to the survey. Sending out a large number of survey questionnaires would help overcome this problem.

It is also recommended that the NCMA continue to work to make people aware of this research. In addition to publishing the research results, perhaps the NCMA could hold

workshops on contracting terms in order to familiarize people with these definitions. This kind of publicity might also increase the number of people who respond to the survey questionnaires.

**Appendix A: Survey Cover Letter**

**Dear Certified Professional Contracts Manager**

The National Contract Management Association (NCMA) is compiling a dictionary of contracting terms in an effort to improve communication in the contracting field. In support of this work, the definitions of several contracting terms have been developed based on research of the current literature. However, it is important to know how contracting professionals are using these terms and if they agree with these definitions.

This survey is being sent to a randomly selected group of CPCMs to determine the amount of agreement with each term's definition. Your response is essential if we are to get a representative opinion concerning each term's definition.

Your responses to this survey will remain confidential. Each questionnaire has a number assigned, so that we can tell which ones have been returned. There will be no public identification of any individual responses.

Your help in creating this dictionary of contracting terms is greatly appreciated. Once all the terms are defined, we are planning to publish them in the NCMA Journal. It is hoped that these definitions will be used to improve communications during negotiations.

For your convenience, we are enclosing a stamped return envelope for the questionnaire. Ms Stephanie Shelley will be happy to answer any questions you may have. Her phone number is (513) 429-2208.

Thank you very much for your assistance in this matter.

Sincerely,

WILLIAM C. PURSCH, Ph.D.  
Professor, Contracting Management  
School of Systems and Logistics

2 Atch  
1. Questionnaire  
2. Envelope

Appendix B: Follow-Up Postcard

Last week a questionnaire on contracting term definitions was sent to you. If you have already returned it, I sincerely thank you.

If you have not returned this questionnaire, please fill it out today. Your response is important if we are to have a representative sample of contracting professionals' opinions concerning these definitions.

If for some reason you do not have a copy of this questionnaire, please call me collect (513) 429-2208 and I will mail another copy to you.

Sincerely,

Stephanie Shelley  
AFIT Graduate Student

**Appendix C: Follow-Up Survey Letter**

**Dear Certified Professional Contracts Manager**

About three weeks ago, I sent you a questionnaire concerning the definitions of contract terms. I have not yet received a reply from you.

The purpose of this survey is to establish definitions for contracting terms. We hope this will improve negotiations by reducing misunderstandings.

It is important to know if contracting professionals agree with the definitions contained in this questionnaire. Your response is important if we are to obtain a random sample of opinion.

Another copy of this questionnaire is enclosed in case the first one was misplaced. Also, a stamped return envelope is enclosed.

Your help in creating a dictionary of contracting terms is greatly appreciated. Thank you.

Sincerely

WILLIAM C. PURSCH, Ph.D.  
Professor, Contracting Management  
School of Systems and Logistics

3 Atch  
1. Cy Ltr, 3 Apr 91  
2. Questionnaire  
3. Envelope

Appendix D: Survey Questionnaire

INSTRUCTIONS FOR COMPLETING THIS QUESTIONNAIRE

This questionnaire contains definitions for 25 contracting terms.

The purpose of this questionnaire is to survey contracting professionals to determine their agreement with these definitions.

To complete this questionnaire:

1. Circle the rating number that best describes your agreement with the definition
2. Provide any additional comments you have regarding the definition

PLEASE SUBMIT YOUR RESPONSES BY 3 MAY 1991

Thank you for your help.

Stephanie Shelley  
AFIT/LSG  
Wright-Patterson AFB, Oh 45433

## BACKGROUND INFORMATION

1. What is the highest degree that you have?
  - a. Bachelor's degree
  - b. Master's degree
  - c. Ph.D.
  
2. Where are you employed?
  - a. Government contracting
  - b. Commercial contracting
  - c. Academic institution
  - d. Other
  
3. What is your current job position?
  - a. contracting/acquisition
  - b. manufacturing/production
  - c. accounting/pricing
  - d. engineering
  - e. research
  - f. legal
  - g. other
  
4. How many years of experience do you have in your current job position?
  - a. up to 5 yrs
  - b. 6-10 yrs
  - c. 11-15 yrs
  - d. 16-20 yrs
  - e. over 20 yrs

### ADVANCE ACQUISITION

The acquisition of long leadtime items or large quantities of items in a fiscal year in advance of that in which the related end item is to be acquired. May include the costs associated with processing those items purchased in advance.

Do you agree with this definition?

---1-----	2-----	3-----	4-----	5---
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### AUCTIONING

Federal government personnel shall not engage in auction techniques such as (a) Indicating to an offeror a cost or price that it must meet to obtain further consideration; (b) Advising an offeror of its price standing relative to another offeror (however, it is permissible to inform an offeror that its cost or price is considered by the government to be too high or unrealistic); and (c) Otherwise furnishing information about other offerors' prices. (Desktop Guide, 1990:13)

Do you agree with this definition?

---1-----	2-----	3-----	4-----	5---
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:



## BID

An offer to perform a contract by providing labor or material for a specific price. In federal government contracting, this offer is provided in response to a request for proposal or invitation for bid.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

## BID AND PROPOSAL COSTS

Costs incurred in preparing, submitting and supporting bids and proposals in an attempt to get a contract.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### BID OPENING

The public opening of bids which are recorded and made available for public inspection. (Dictionary of Purchasing, 1986:3)

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### BID WITHDRAWAL

The act of removing a bid from the buyer's consideration.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### BURDEN

The term burden is used synonymously with the terms overhead and indirect costs. Therefore, it is discussed and defined under the term overhead.

### CEILING PRICE

The maximum amount a customer will pay under a cost-sharing type contract.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### COST ANALYSIS

The review and evaluation of a contractor's cost or pricing data in order to determine the fairness and reasonableness of the contractor's proposed price. All of the information used by the seller in setting his price is examined in an effort to ensure that the seller is not overcharging.

After contract award, the collection and study of cost information.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### COST ELEMENT

The cost associated with a given function, process or item. It is a subdivision of an overall cost category.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### COST OVERRUN

An increase in contractual amount over the estimated cost of a contract. It does not include cost increases due to authorized changes such as an increase in quantity or an engineering change.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### COST REIMBURSEMENT

Refers to a family of pricing arrangements that provide for payment of allowable, allocable and reasonable costs incurred in the performance of a contract, to the extent that such costs are prescribed or permitted by the contract.  
(Dictionary of Cost, 1986:43)

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### COST RISK

An assumption of possible monetary loss or gain in light of the job or work to be done. One of the elements to be considered in the negotiation of a fair and reasonable price, as well as in determining the type of contract under which performance will occur. (DOD, 1986:B-4)

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### ESTABLISHED CATALOG PRICE

A price included in a catalog, price list, schedule or other form that (1) is regularly maintained by a manufacturer or vendor, (2) is published or made available for inspection by customers, and (3) states prices at which sales are currently or were last made to a significant number of buyers constituting the general public. (DOD, 1986:B-5)

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### FIELD PRICING SUPPORT

The review and evaluation of a pricing proposal by any or all field pricing support personnel (such as price analysts or engineers) in order to provide a detailed analysis of the proposal that can be used in contract negotiations.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### INTERIM PRICING

The establishment of initial contract prices that are subject to change as more information becomes available. In some cases, the price will change for future deliveries only; in other cases, the price will change for all the deliveries, past and future.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### NOT-TO-EXCEED (NTE) PRICE

A dollar limit set on a contract when the contractor begins work on a project or contractual amendment (e.g., a change order) before price negotiations are completed. The final price negotiated for the contract cannot be greater than the not-to-exceed price.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

OFFEROR

The one who presents a bid or proposal to another for acceptance or rejection.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

OVERHEAD (and Burden)

Costs which are incurred for more than one cost objective and are not exclusively incurred for any one product or service. An example would be general and administrative expenses.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:



### PRE-BID CONFERENCE

A conference held with prospective bidders prior to the submission of a bid to clarify any ambiguous situations, answer bidder questions, and ensure that all bidders have a common basis of understanding regarding the supplies or services required... (Desktop Guide, 1990:38)

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### PRE-SOLICITATION CONFERENCE

A meeting held with potential contractors prior to a formal solicitation, to discuss technical and other problems connected with a proposed procurement. The conference is also used to elicit the interest of prospective contractors in pursuing the task. (Glossary, 1985:Appendix B, 56)

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### PRICE COMPETITION

The result of at least two responsible offerors, who can satisfy the purchaser's requirements, independently competing for a contract to be awarded to the responsive and responsible offeror submitting the lowest evaluated priced offer responsive to the solicitation's expressed requirements.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### PURCHASE REQUEST

A document containing an exact description of the product or service to be acquired including the required quantities and delivery dates.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### TARGET PRICE

The combination of allowable costs (target cost) and target profit.

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

### WORK BREAKDOWN STRUCTURE

A management technique for subdividing a total job into its component elements, which then can be displayed in a manner to show the relationship of these elements to each other and to the whole. A product-oriented family tree division of hardware, software, services, and other work tasks which organizes, defines, and graphically displays the product to be produced as well as the work to be accomplished to achieve the specified product.  
(Dictionary of Cost, 1986:156)

Do you agree with this definition?

-----1-----	-----2-----	-----3-----	-----4-----	-----5-----
Strongly disagree	Somewhat disagree	Undecided	Somewhat agree	Strongly agree

Comments:

## Appendix F: Final Proposed Definitions

### ADVANCE ACQUISITION

The acquisition of long leadtime items or large quantities of items in a fiscal year in advance of that fiscal year in which the related end item is to be acquired. May include the costs associated with processing those items purchased in advance.

### AUCTIONING

(i) Indicating to an offeror a cost or price that it must meet to obtain further consideration;

(ii) Advising an offeror of its price standing relative to another offeror (however, it is permissible to inform an offeror that its cost or price is considered by the Government to be too high or unrealistic); and

(iii) Otherwise furnishing information about other offerors' prices. (FAR 15.610(e)(2))

### BID

An offer to perform a contract by providing labor and/or material for a specific price. In federal government contracting, this offer is provided in response to an invitation for bid.

### BID AND PROPOSAL COSTS

Costs incurred in preparing, submitting and supporting bids and proposals in an attempt to win a contract.

### BID OPENING

The public opening of bids which are recorded and made available for public inspection. (Dictionary of Purchasing, 1986:3)

### BID WITHDRAWAL

The act of removing a bid (by the bidder) from the buyer's consideration.

### CEILING PRICE

The maximum amount a customer is obligated to pay under a fixed-price type of contract that calls for some cost-sharing, such as FPIF.

### COST ANALYSIS

The review and evaluation of a contractor's cost or pricing data in order to determine the fairness and reasonableness of the contractor's proposed cost. All of the information presented by the seller in setting his cost is examined in an effort to ensure that the cost is fair and reasonable.

### COST ELEMENT

Part of an overall cost category consisting of a given function, process or item.

### COST OVERRUN

An increase in contractual costs over the estimated cost of a contract. It does not include cost increases due to authorized changes such as an increase in quantity or an engineering change.

### COST REIMBURSEMENT

Refers to a family of pricing arrangements that provide for payment of allowable, allocable and reasonable costs incurred in the performance of a contract, to the extent that such costs are prescribed or permitted by the contract. (Dictionary of Cost, 1986:43)

### COST RISK

An assumption of possible monetary loss or gain in light of the job or work to be done. One of the elements to be considered in the negotiation of a fair and reasonable price, as well as in determining the type of contract under which performance will occur. (DOD, 1986:B-4)

### ESTABLISHED CATALOG PRICE

A price included in a catalog, price list, schedule, or other form that (1) is regularly maintained by a manufacturer or vendor, (2) is published or made available for inspection by customers, and (3) states prices at which sales are currently or were last made to a significant number of buyers constituting the general public. (DOD, 1986:B-5)

### FIELD PRICING SUPPORT

The review and evaluation of a pricing proposal by any or all field pricing support personnel (such as price analysts or engineers) in order to provide a detailed analysis of the proposal that can be used in contract negotiations.

### INTERIM PRICING

The establishment of initial contract prices that are subject to change as more information becomes available. In some cases, the price will change for future deliveries only; in other cases, the price will change for all the deliveries, past and future.

### NOT-TO-EXCEED (NTE) PRICE

A dollar limit set on a contract when the contractor begins work on a project or contractual amendment (e.g., a change order) before price negotiations are completed. The final price negotiated for the contract cannot be greater than the not-to-exceed price.

### OFFEROR

The organization(s) or individual(s) presenting a bid or proposal to a potential buyer for acceptance or rejection.

### OVERHEAD (and Burden)

Costs which are incurred for more than one cost objective and are not exclusively incurred for any one product or service. Examples would include general and administrative expenses, engineering overhead, etc.

### PRE-BID CONFERENCE

A conference held with prospective bidders prior to the submission of a bid to clarify any ambiguous situations, answer bidder questions, and ensure that all bidders have a common basis of understanding regarding the supplies or services required; called Pre-Proposal Conference in a negotiated procurement. (Desktop Guide, 1990:38)

### PRE-SOLICITATION CONFERENCE

A meeting held with potential contractors prior to a formal solicitation, to discuss technical and other problems connected with a proposed procurement. The conference is also used to elicit the interest of prospective contractors in pursuing the task. (Glossary, 1985:Appendix B, 56)

### PRICE COMPETITION

The process of two or more offerors, capable of satisfying the buyer's requirements, independently competing for a contract to be awarded to the responsible offeror submitting the lowest evaluated priced offer responsive to the solicitation's expressed requirements.

### PURCHASE REQUEST

A document containing a description of the product(s) and/or service(s) to be acquired including, but not limited to, the required quantities and delivery dates.

### TARGET PRICE

The combination of target cost and target profit.

### WORK BREAKDOWN STRUCTURE

A management technique for subdividing a total job into its component elements, which then can be displayed in a manner to show the relationship of these elements to each other and to the whole. A product-oriented family tree division of hardware, software, services, and other work tasks which organizes, defines, and graphically displays the product to be produced as well as the work to be accomplished to achieve the specified product.  
(Dictionary of Cost, 1986:156)



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6. AUTHOR(S)  Stephanie Shelley, GS-12				
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# AFIT RESEARCH ASSESSMENT

The purpose of this questionnaire is to determine the potential for current and future applications of AFIT thesis research. Please return completed questionnaires to: AFIT/LSC, Wright-Patterson AFB OH 45433-6583.

1. Did this research contribute to a current research project?

- a. Yes                      b. No

2. Do you believe this research topic is significant enough that it would have been researched (or contracted) by your organization or another agency if AFIT had not researched it?

- a. Yes                      b. No

3. The benefits of AFIT research can often be expressed by the equivalent value that your agency received by virtue of AFIT performing the research. Please estimate what this research would have cost in terms of manpower and/or dollars if it had been accomplished under contract or if it had been done in-house.

Man Years \_\_\_\_\_ \$ \_\_\_\_\_

4. Often it is not possible to attach equivalent dollar values to research, although the results of the research may, in fact, be important. Whether or not you were able to establish an equivalent value for this research (3 above), what is your estimate of its significance?

- a. Highly Significant      b. Significant      c. Slightly Significant      d. Of No Significance

5. Comments

\_\_\_\_\_  
Name and Grade

\_\_\_\_\_  
Organization

\_\_\_\_\_  
Position or Title

\_\_\_\_\_  
Address